

Metal Industry Indicators

Indicators of Domestic Primary Metals, Steel, Aluminum, and Copper Activity

November 2010

The primary metals leading index increased strongly in October, and its 6-month smoothed growth rate more than doubled. Although the U.S. economic recovery is progressing at a moderate pace with the manufacturing sector generating only moderate metals consumption, robust manufacturing activity in China and other emerging economies are likely to underpin global metals demand in the near future. The metals price leading index growth rate remained deep in negative territory in September, indicating price declines for some metals in the near future.

The **primary metals leading index** increased 2.9% in October to 151.1 from a revised 146.9 in September. The index's 6-month smoothed growth rate, a compound annual rate that measures the near-term trend, increased to 8.4% from a revised 4.1% in September. A growth rate above +1.0% is usually a sign of an upward near-term trend for future metals activity, while a growth rate below -1.0% indicates a downward trend. For an explanation of these indexes and a definition of the primary metals industry, [see page 10](#).

All four of the index's available components increased in October. The stock price index combining construction and farm machinery companies and industrial machinery companies continued to rise and made the largest contribution, 1.0 percentage point, to the overall increase in the leading index. A lengthening average workweek in primary metals establishments contributed 0.7 percentage points. The Institute for Supply Management's PMI rebounded in October, moving higher above the threshold that denotes an increase in future manufacturing activity. It contributed 0.6 percentage points to the leading index. The USGS metals price index growth rate nearly doubled in October, adding another 0.6 percentage points. The primary metals leading index will likely be revised next month when the remaining four components become available.

The third consecutive increase in the primary metals leading index and its relatively high growth rate suggest that the decline in activity growth in the metals industry could end soon. The U.S. manufacturing sector still appears healthy enough to support moderate domestic metals consumption. Moreover, robust metals demand from emerging and developing countries, especially China, are likely to bolster domestic metals demand.

The **steel leading index** increased 0.8% in September, the latest month for which it is available, to 107.2 from a revised 106.4 in August. Its 6-month smoothed growth rate rose to -0.4% from a

revised -1.6% in August. Movement among its indicators was mixed, but the one-hour longer average workweek in iron and steel plants and the jump in the inflation-adjusted M2 money supply growth rate boosted the leading index the most in September. In contrast, reduced shipments of appliances, a lower index for new housing permits issued, and a dip in the PMI in September kept the leading index from moving even higher. While the steel leading index growth rate is still negative, it is above the -1.0% threshold that indicates further decreases in U.S. steel industry activity growth. The dip in steel industry activity could be ending.

The **copper leading index** decreased 0.4% in September to 118.7 from 119.2 in August. Its 6-month smoothed growth rate sank to -2.9% from a revised -1.9% in August. Most of the index's indicators decreased, but it was the shorter average workweek in nonferrous metal products plants except aluminum that made the largest negative impact on the leading index. Meanwhile, the soaring copper price and the S&P stock price index for building products kept the leading index from declining further. The copper leading index growth rate has recently fallen into negative territory, which would normally indicate a decrease in future activity growth. However, because the copper price is so high, the recovery in the U.S. copper industry could continue in the near term.

Speculation Pushes Prices Higher

The **metals price leading index** decreased 0.5% to 106.0 in September, the latest month for which it is available, from a revised 106.5 in August. However, its 6-month smoothed growth rate remained at the revised -11.9% of August. The growth rate of the Organization for Economic Cooperation and Development (OECD) Total Leading Index, which has fallen

every month since the beginning of the year, made the largest negative contribution, -0.6 percentage points, to the net decline in the leading index in September. A second sharp decline in the growth rate of the inflation-adjusted value of new orders for U.S. nonferrous metal products contributed -0.2 percentage points. The tightening yield spread between the U.S. 10-year Treasury Note and the federal funds rate barely rounded down to -0.1 percentage point in September. In contrast, the growth rate of the trade-weighted average exchange value of other major currencies against the U.S. dollar moved into positive territory for first month since April, contributing 0.4 percentage points to the leading index. The metals price leading index signals major changes in the growth rate of nonferrous metals prices an average of 8 months in advance.

The growth rate of the inflation-adjusted value of U.S. nonferrous metal products inventories, which is an indicator of supply, decreased in September. This normally indicates an increase in price growth. Furthermore, preliminary data suggests that the metals price leading index growth rate may have halted its downward spiral, indicating that conditions are set for metals price growth. Moreover, speculative metals buying continues to push some metal prices higher.

The business cycle, inventories, and speculation are only three factors in metal price determination. Other factors that affect prices include changes in metals production, strategic stockpiling, foreign exchange rates, geopolitical instability, and production costs.

Table 1.
Leading Index of Metal Prices and Growth Rates of the Nonferrous Metals Price Index,
Inventories of Nonferrous Metal Products, and Selected Metal Prices

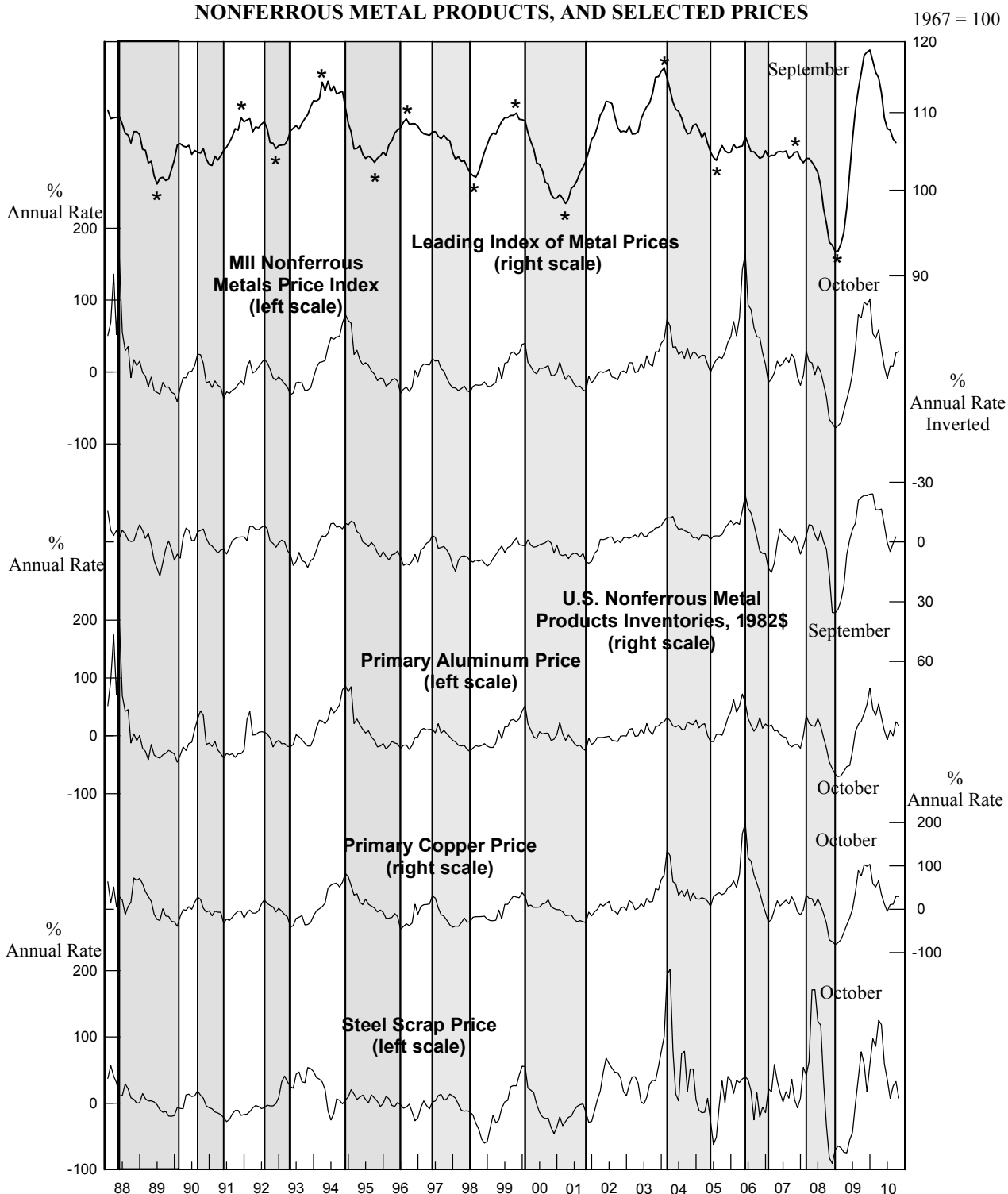
	Six-Month Smoothed Growth Rates					
	Leading Index of Metal Prices (1967=100)	MII Nonferrous Metals Price Index	U.S. Nonferrous Metal Products Inventories (1982\$)	Primary Aluminum	Primary Copper	Steel Scrap
2009						
September	115.5	75.2	-22.4	25.2	77.0	77.4
October	118.0	97.3	-23.3	38.8	102.8	58.6
November	118.5r	93.4	-23.3	54.2	98.9	17.2
December	118.8	100.8	-24.0	82.9	103.5	58.8
2010						
January	117.2r	53.2	-24.1	46.2	59.0	96.9
February	115.6	46.9	-16.1	35.3	51.7	85.8
March	114.8	58.2	-16.2	55.0	66.0	125.1
April	112.7	31.5	-16.5	31.7	34.6	118.1
May	109.3	6.9	-8.4r	9.0	12.3	59.6
June	107.9r	-9.2	0.3r	-6.7	-4.7	35.7
July	107.6	8.2	4.8r	9.6	10.8	7.3
August	106.5r	7.9	0.7	-0.1	11.9	25.7
September	106.0	26.5	-2.6	24.0	29.8	32.6
October	NA	28.4	NA	18.6	29.4	8.1

NA: Not available **r:** Revised

Note: The components of the Leading Index of Metal Prices are the spread between the U.S. 10-year Treasury Note and the federal funds rate, and the 6-month smoothed growth rates of the deflated value of new orders for nonferrous metal products, the Organization for Economic Cooperation and Development (OECD) Total Leading Index, and the reciprocal of the trade-weighted average exchange value of the U.S. dollar against other major currencies. The Metal Industry Indicators (MII) Nonferrous Metals Price Index measures changes in end-of-the-month prices for primary aluminum, copper, lead, and zinc traded on the London Metal Exchange (LME). The steel scrap price used is the price of No. 1 heavy melting. Inventories consist of the deflated value of finished goods, work in progress, and raw materials for U.S.-produced nonferrous metal products (NAICS 3313, 3314, & 335929). Six-month smoothed growth rates are based on the ratio of the current month's index or price to its average over the preceding 12 months, expressed at a compound annual rate.

Sources: U.S. Geological Survey (USGS); American Metal Market (AMM); the London Metal Exchange (LME); U.S. Census Bureau; the Organization for Economic Cooperation and Development (OECD); and Federal Reserve Board.

**CHART 1.
LEADING INDEX OF METAL PRICES AND GROWTH RATES
OF NONFERROUS METALS PRICE INDEX, INVENTORIES OF
NONFERROUS METAL PRODUCTS, AND SELECTED PRICES**



Shaded areas are downturns in the nonferrous metals price index growth rate. Asterisks (*) are peaks and troughs in the economic activity reflected by the leading index of metal prices. Scale for nonferrous metal products inventories is inverted.

Table 2.
The Primary Metals Industry Indexes and Growth Rates

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
2009				
November	141.4	17.1	89.9	6.8
December	144.2	19.9	92.2	13.3
2010				
January	144.1	17.5	92.4	13.7
February	144.0	15.3r	93.8	16.3
March	146.5r	16.6r	95.7	19.4
April	147.9	15.5	96.7r	19.3r
May	147.7r	12.2	97.4r	18.2r
June	145.6r	7.0r	97.5r	15.5r
July	144.1r	3.1r	96.9r	11.0r
August	145.8r	3.7r	97.2r	9.4r
September	146.9r	4.1r	97.4	7.8
October	151.1	8.4	NA	NA

NA: Not available **r:** Revised

Note: Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

Table 3.
The Contribution of Each Primary Metals Index Component to the Percent Change in the Index from the Previous Month

Leading Index	September	October
1. Average weekly hours, primary metals (NAICS 331)	0.3r	0.7
2. Weighted S&P stock price index, machinery, construction and farm and industrial (December 30, 1994 = 100)	0.5r	1.0
3. Ratio of price to unit labor cost (NAICS 331)	-0.1	NA
4. USGS metals price index growth rate	0.1r	0.6
5. New orders, primary metal products, (NAICS 331 & 335929) 1982\$	-0.1	NA
6. Index of new private housing units authorized by permit	-0.2	NA
7. Growth rate of U.S. M2 money supply, 2005\$	0.5	NA
8. PMI	-0.2r	0.6
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.8r	2.9
Coincident Index	August	September
1. Industrial production index, primary metals (NAICS 331)	0.0r	0.0
2. Total employee hours, primary metals (NAICS 331)	0.0r	0.3
3. Value of shipments, primary metals products, (NAICS 331 & 335929) 1982\$	0.2r	-0.1
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	0.3r	0.3

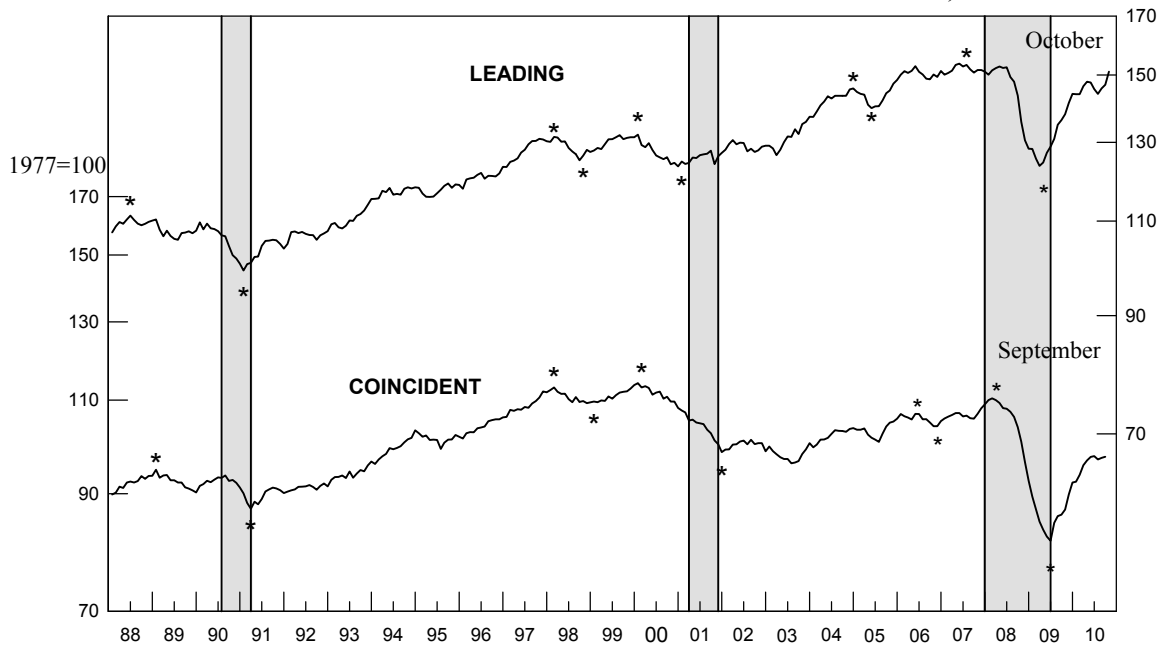
Sources: Leading: 1, Bureau of Labor Statistics; 2, Standard & Poor's and U.S. Geological Survey; 3, U.S. Geological Survey; 4, Journal of Commerce and U.S. Geological Survey; 5, U.S. Census Bureau and U.S. Geological Survey; 6, U.S. Census Bureau and U.S. Geological Survey; 7, Federal Reserve Board, Conference Board, and U.S. Geological Survey; and 8, Institute for Supply Management. Coincident: 1, Federal Reserve Board; 2, Bureau of Labor Statistics and U.S. Geological Survey; 3, U.S. Census Bureau and U.S. Geological Survey. All series are seasonally adjusted, except 2, 3, and 4 of the leading index.

NA: Not available **r:** Revised

Note: A component's contribution, shown in Tables 3, 5, 7, and 9, measures its effect, in percentage points, on the percent change in the index. Each month, the sum of the contributions plus the trend adjustment equals (except for rounding differences) the index's percent change from the previous month.

CHART 2.

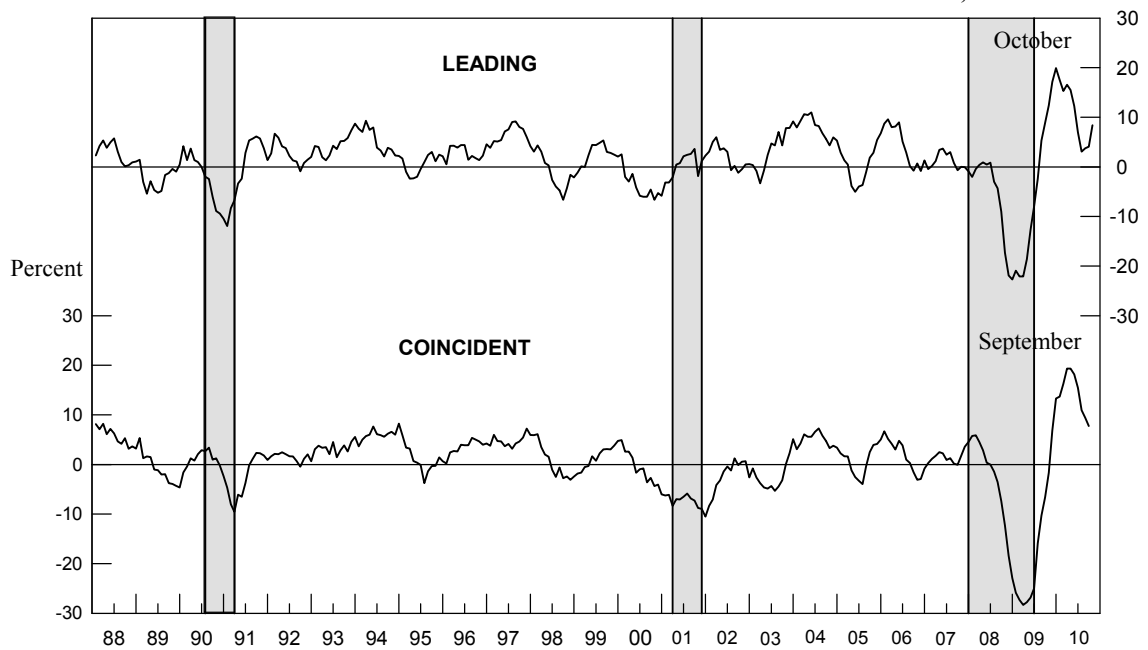
PRIMARY METALS: LEADING AND COINCIDENT INDEXES, 1988-2010 1977=100



Shaded areas are business cycle recessions. Asterisks (*) signify peaks (the end of an expansion) and troughs (the end of a downturn) in the economic activity reflected by the indexes.

CHART 3.

PRIMARY METALS: LEADING AND COINCIDENT GROWTH RATES, 1988-2010 Percent



Shaded areas are business cycle recessions.

The growth rates are expressed as compound annual rates based on the ratio of the current month's index to its average level during the preceding 12 months.

Table 4.
The Steel Industry Indexes and Growth Rates

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
2009				
October	105.0r	4.9	91.0	4.5
November	105.8	6.4	92.5	9.5
December	107.2	8.1	94.1	13.7
2010				
January	107.5r	8.1	95.2	15.9
February	108.0	8.1r	95.8	16.0
March	110.7	12.0r	97.4	18.1
April	111.2r	11.4r	97.6	16.3
May	110.9r	9.0r	98.6	15.8r
June	107.8r	2.1r	97.5	10.6
July	105.9	-1.9	95.4r	4.0r
August	106.4r	-1.6r	95.9r	3.3r
September	107.2	-0.4	96.5	3.2

r: Revised

Note: Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

Table 5.
The Contribution of Each Steel Index Component to the Percent Change in the Index from the Previous Month

Leading Index	August	September
1. Average weekly hours, iron and steel mills (NAICS 3311 & 3312)	0.4r	0.8
2. New orders, iron and steel mills (NAICS 3311 & 3312), 1982\$	-0.1r	-0.1
3. Shipments of household appliances, 1982\$	0.0	-0.2
4. S&P stock price index, steel companies	0.2	0.1
5. Retail sales of U.S. passenger cars and light trucks (units)	-0.1	0.1
6. Growth rate of the price of steel scrap (#1 heavy melting, \$/ton)	-0.4	0.1
7. Index of new private housing units authorized by permit	0.1	-0.2
8. Growth rate of U.S. M2 money supply, 2005\$	0.3	0.5
9. PMI	0.1	-0.2
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.5r	0.9
Coincident Index		
1. Industrial production index, iron and steel products (NAICS 3311 & 3312)	-0.1r	0.1
2. Value of shipments, iron and steel mills (NAICS 3311 & 3312), 1982\$	0.4r	-0.2
3. Total employee hours, iron and steel mills (NAICS 3311 & 3312)	0.0r	0.6
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	0.4r	0.6

Sources: Leading: 1, Bureau of Labor Statistics; 2, U.S. Census Bureau and U.S. Geological Survey; 3, U.S. Census Bureau and U.S. Geological Survey; 4, Standard & Poor's; 5, U.S. Bureau of Economic Analysis and American Automobile Manufacturers Association; 6, Journal of Commerce and U.S. Geological Survey; 7, U.S. Census Bureau and U.S. Geological Survey; 8, Federal Reserve Board, Conference Board, and U.S. Geological Survey; and 9, Institute for Supply Management. Coincident: 1, Federal Reserve Board; 2, U.S. Census Bureau and U.S. Geological Survey; 3, Bureau of Labor Statistics and U.S. Geological Survey. All series are seasonally adjusted, except 4 and 6 of the leading index.

r: Revised

CHART 4.
STEEL: LEADING AND COINCIDENT INDEXES, 1988-2010

1977=100

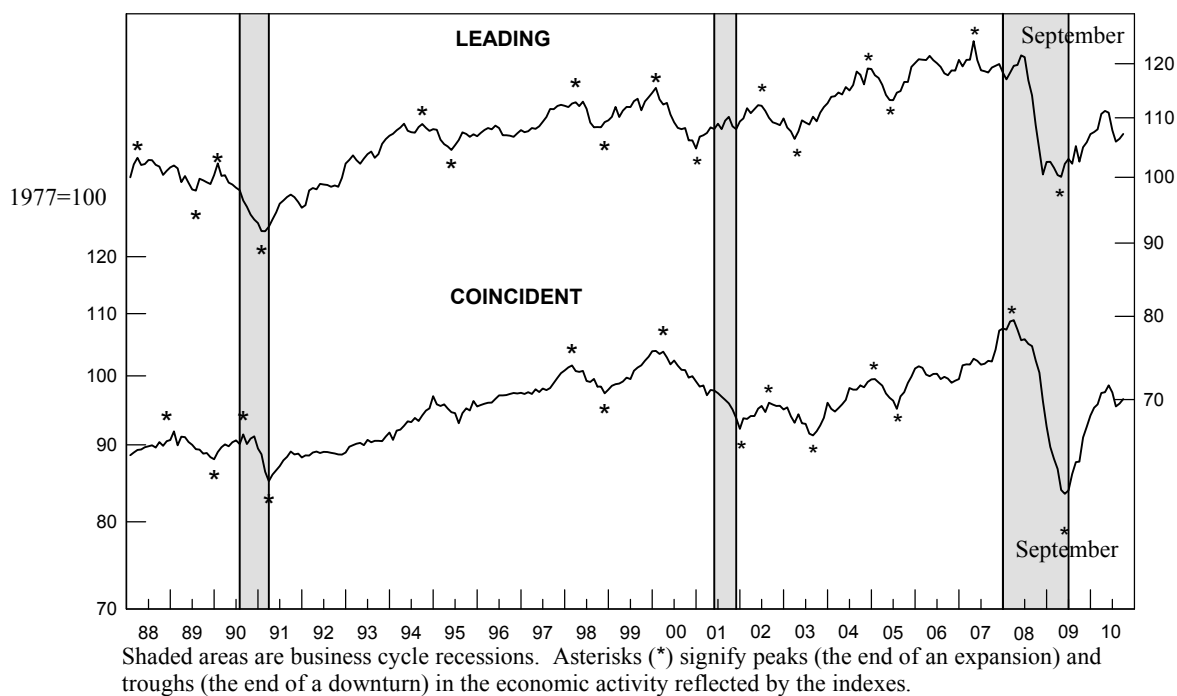
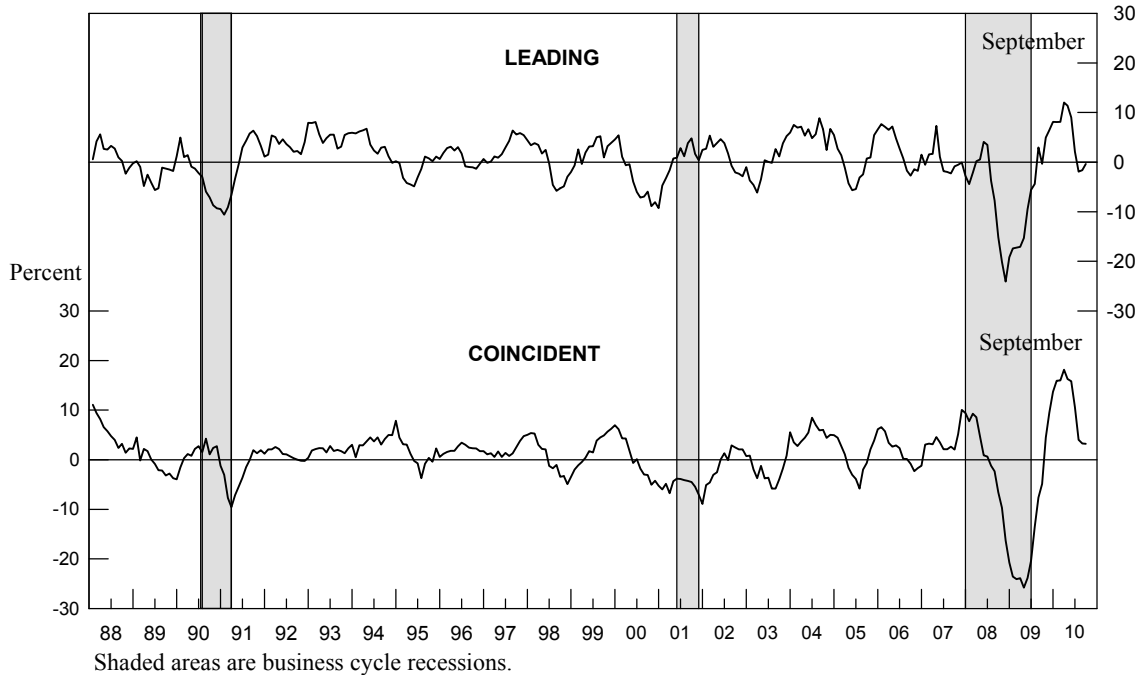


CHART 5.
STEEL: LEADING AND COINCIDENT GROWTH RATES, 1988-2010

Percent



The growth rates are expressed as compound annual rates based on the ratio of the current month's index to its average level during the preceding 12 months.

Table 6.
The Copper Industry Indexes and Growth Rates

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
2009				
October	115.9	9.1	88.8	-5.9
November	122.1	19.8	94.6	8.3
December	123.2	19.7	93.1	5.8
2010				
January	120.4	12.2	91.9	3.9
February	121.0	11.7	91.3	3.6
March	124.0	14.5	95.2	11.9
April	124.0	11.8	95.6	11.9
May	121.7r	5.7r	94.4	7.9
June	119.4	0.3	96.3r	10.2r
July	118.6	-2.1	96.4r	8.3r
August	119.2r	-1.9r	98.5r	10.8r
September	118.7	-2.9	96.5	5.1

r: Revised

Note: Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

Table 7.
The Contribution of Each Copper Index Component to the Percent Change in the Index from the Previous Month

Leading Index	August	September
1. Average weekly hours, nonferrous metals except aluminum (NAICS 3314)	0.9	-0.7
2. New orders, nonferrous metal products, (NAICS 3313, 3314, & 335929) 1982\$	-0.2	-0.1
3. S&P stock price index, building products companies	-0.1	0.2
4. LME spot price of primary copper	0.1	0.5
5. Index of new private housing units authorized by permit	0.1	-0.3
6. Spread between the U.S. 10-year Treasury Note and the federal funds rate	-0.3	0.0
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.5	-0.4
Coincident Index		
1. Industrial production index, primary smelting and refining of copper (NAICS 331411)	-0.2r	0.0
2. Total employee hours, nonferrous metals except aluminum (NAICS 3314)	2.2	-2.2
3. Copper refiners' shipments (short tons)	NA	NA
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	1.9r	-2.1

Sources: Leading: 1, Bureau of Labor Statistics; 2, U.S. Census Bureau and U.S. Geological Survey; 3, Standard & Poor's; 4, London Metal Exchange; 5, U.S. Census Bureau and U.S. Geological Survey; 6, Federal Reserve Board and U.S. Geological Survey. Coincident: 1, Federal Reserve Board; 2, Bureau of Labor Statistics; 3, American Bureau of Metal Statistics, Inc. and U.S. Geological Survey. All series are seasonally adjusted, except 3, 4, and 6 of the leading index.

r: Revised NA: Not available

CHART 6.
COPPER: LEADING AND COINCIDENT INDEXES, 1988-2010

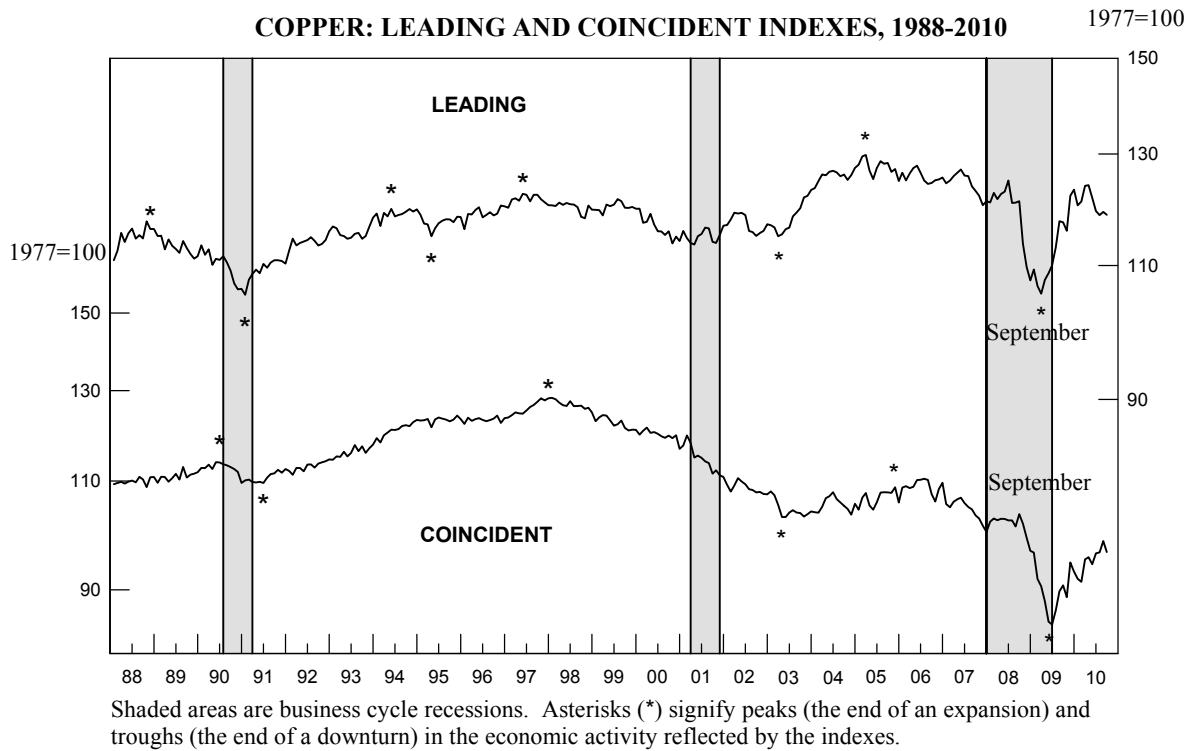
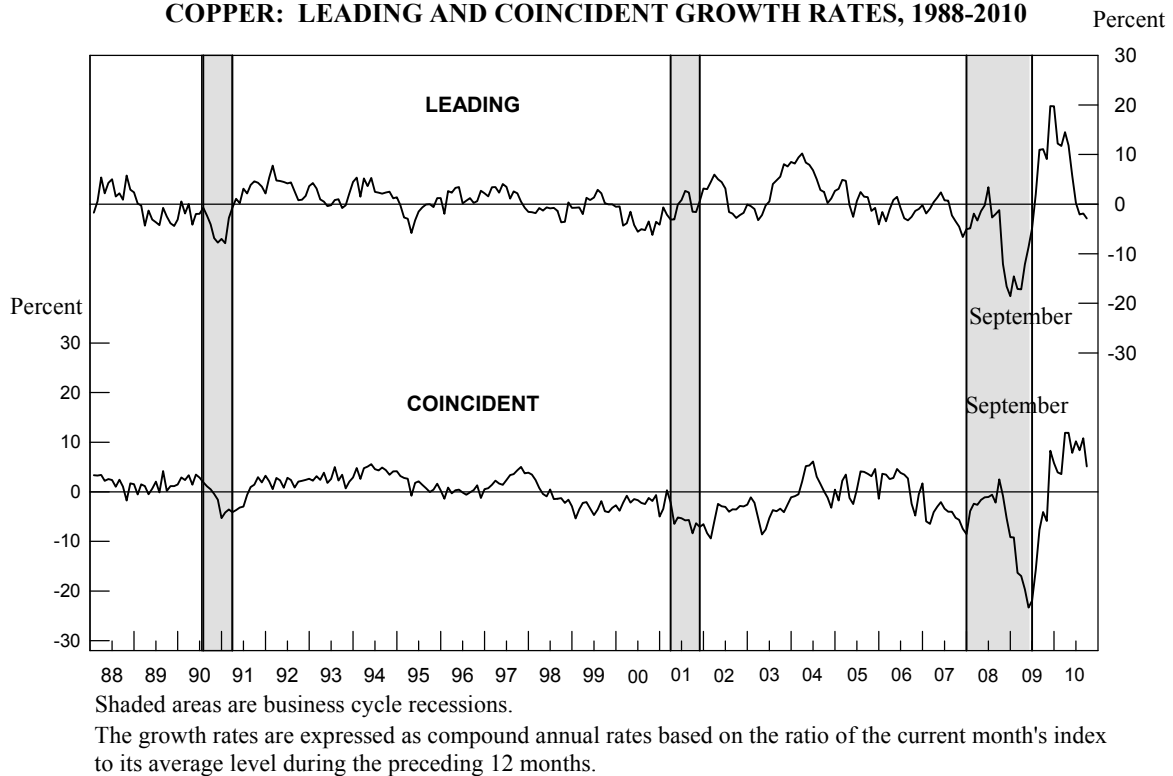


CHART 7.
COPPER: LEADING AND COINCIDENT GROWTH RATES, 1988-2010



Explanation

Each month, the U.S. Geological Survey tracks the effects of the business cycle on five U.S. metal industries by calculating and publishing composite indexes of leading and coincident indicators. Wesley Mitchell and Arthur Burns originated the cyclical-indicators approach for the economy as a whole at the National Bureau of Economic Research in the mid-1930s. Over subsequent decades this approach was developed and refined, mostly at the National Bureau, under the leadership of Geoffrey H. Moore.¹

A business cycle can briefly be described as growth in the level of economic activity followed by a decline succeeded by further growth. These alternating periods of growth and decline do not occur at regular intervals. Composite indexes, however, can help determine when highs and lows in the cycle might occur. A composite index combines cyclical indicators of diverse economic activity into one index, giving decision makers and economists a single measure of how changes in the business cycle are affecting economic activity.

The indicators in the metal industry leading indexes historically give signals several months in advance of major changes in a coincident index, a measure of current metal industry activity. Indicators that make up the leading indexes are, for the most part, measures of anticipations or new commitments to various economic activities that can affect the metal industries in the months ahead.

Composite coincident indexes for the metal industries consist of indicators for production, shipments, and total employee hours worked. As such, the coincident indexes can be regarded as measures of the economic health of the metal industries.

The metal industry coincident indexes reflect industry activity classified by the U.S. Standard Industrial Classification (SIC) and the North American Industry Classification System (NAICS). Of the five metal industries, primary metals (NAICS 331) is the broadest, containing 25 different metal processing industries. Steel, aluminum, and copper are specific industries within the primary metals group.

The SIC was the main vehicle used by the U.S. Government and others in reporting industry economic statistics throughout most of the last century. Starting with the 1997 U.S. Economic Census, the U.S. Government began using the NAICS, which classifies economic data for industries in Canada, Mexico, and the United States. In general, metal industry indexes starting in 1997 begin to reflect the NAICS classification, while indexes for earlier years follow the SIC. Hence, composite indexes from 1997 forward are not entirely consistent with those of earlier years.

The largest change to primary metals because of the NAICS deals with other communication and energy wire manufacturing (NAICS 335929). Under NAICS, this manufacturing has been removed from primary metals and added to electrical equipment, appliance, and component manufacturing. Because monthly shipments and new orders for this wire are not available, the USGS is estimating their values from 1997 onward and adding them to the appropriate metal industry indicators and indexes to maintain consistency.

¹Business Cycle Indicators, A monthly report from The Conference Board (March 1996).

There are other small changes to the primary metals industry because of the switch to the NAICS. Coke oven activity not done by steel mills, for example, is removed and alumina refining, a part of industrial inorganic chemical manufacturing under the SIC, is added. Since the historic trends of the composite indexes are not affected by these small changes, the USGS is not making specific adjustments to the indexes for them for the periods before and after 1997.

The metal industry leading indexes turn before their respective coincident indexes an average of 8 months for primary metals and 7 months for steel and copper. The average lead time for the primary aluminum leading index is 6 to 8 months, and the average lead time for the aluminum mill products leading index is 6 months.

The leading index of metal prices, also published in the *Metal Industry Indicators*, is designed to signal changes in a composite index of prices for primary aluminum, copper, lead, and zinc traded on the London Metal Exchange. On average, this leading index indicates significant changes in price growth about 8 months in advance.

The growth rate used in the *Metal Industry Indicators* is a 6-month smoothed growth rate at a compound annual rate, calculated from a moving average. Moving averages smooth fluctuations in data over time so that trends can be observed. The 6-month smoothed growth rate is based upon the ratio of the latest monthly value to the preceding 12-month moving average.

$$\left[\left(\frac{\text{current value}}{\text{preceding 12-month moving average}} \right)^{\frac{12}{6.5}} - 1.0 \right] * 100$$

Because the interval between midpoints of the current month and the preceding 12 months is 6.5 months, the ratio is raised to the 12/6.5 power to derive a compound annual rate.

The growth rates measure the near-term industry trends. They, along with other information about the metal industries and the world economy, are the main tools used to determine the outlook of the industries. A 6-month smoothed growth rate above +1.0% usually means increasing growth; a rate below -1.0% usually means declining growth.

The next update for these indexes is scheduled for release on the World Wide Web at 10:00 a.m. EST, Friday, December 17. The address for *Metal Industry Indicators* on the World Wide Web is: <http://minerals.usgs.gov/minerals/pubs/mii/>

The *Metal Industry Indicators* is produced at the U.S. Geological Survey by the National Minerals Information Center. The report is prepared by Gail James (703-648-4915; e-mail: gjames@usgs.gov) and Ken Beckman (703-648-4916; e-mail: kbeckman@usgs.gov). The former Center for International Business Cycle Research, under the direction of Dr. Geoffrey H. Moore, and the former U.S. Bureau of Mines developed the metal industry leading and coincident indexes in the early 1990s. Customers can send mail concerning the *Metal Industry Indicators* to the following address:

U.S. Geological Survey
National Minerals Information Center
988 National Center
Reston, Virginia 20192